

March 16, 2015

## Natural Gas Trends

### Highlights

#### Natural gas may have bottomed, Citi says

Defying the generally bearish sentiment on natural gas, Citi Futures analyst Tim Evans made a bold case in commentary published Monday that gas prices may “actually be at or near a significant bottom.” Though Evans’ note, titled “Natural Gas: A Possible Bottom?” reads more like an attempt to play devil’s advocate than an earnest endorsement of a bull case, the points he raised are noteworthy nonetheless and –perhaps- convincing. Evans’ reasoning is predicated upon a few key factors: gas prices that are hovering near the bottom of their five-year range, the net-short positioning of money managers, and storage levels that are below the five-year average level. Natural gas prices—both cash and futures—have declined significantly in recent months. Despite record monthly levels of power burn demand in both January and February, production growth driven by the prolific Marcellus Shale has been overwhelming, leading to an oversupplied market.

In fact, as Evans noted, current prices are only slightly higher than they were in 2012, when the prompt-month futures contract traded to a 10-year low of \$1.90/MMBtu in April of that year. At the same time, money managers have moved to a net short position in natural gas following in a long cycle of selling over the past year, Evans observed. Considering that the last time managed money held a net short position of this size was February 2012, roughly six weeks before the 10-year low as set, this suggests “both some potential for short covering and lots of room for an immediate-term cycle of buying if money managers rebuild portfolios back toward a more typical market composition,” Evans wrote in the March 9 note.

#### Fundamental case ‘difficult to make’

While these factors “are consistent with a possible price bottom,” Evans acknowledged that a fundamental case for higher prices is more difficult to make. Still, he pointed to storage levels, a potential slowdown in production, and stronger demand forecasts due to coal-fired power plant retirements and a warmer summer to support his case. With respect to storage, Evans noted that while natural gas storage levels are sharply higher than they were a year ago, they are still currently below the five-year average level. This greatly diminishes the possibility of a significant overhang of physical inventory, he said, lending support to a bull case. He also pointed to a US Department of Energy forecast that suggests at least the possibility of a slowdown in natural gas production growth as the year progresses, which could give demand “a chance to catch up”. On the demand side, Evans said he sees the potential for total US gas consumption to rise by 3-4 Bcf/d, an increase of 4% or more, driven by the retirement of coal-fired power plants this year and a summer warmer than last year’s.

Platts unit Bentek recently lowered its price forecast for natural gas on continued oversupply. It expects Henry Hub cash prices to average \$2.39/MMBtu for the summer months of April through October.

Source: Platts Gas Daily

### Data

- April 2015 Natural Gas Futures Contract (as of March 13), NYMEX at Henry Hub closed at \$2.727 per million British thermal units (MMBtu)
- April 2015 Light, Sweet Crude Oil Futures Contract WTI (as of March 13), closed at \$44.84 per U.S. oil barrel (Bbl.) or approximately \$7.73 per MMBtu

#### Last week: Texas cooler than normal last week

For the week beginning 3/8/15 and ending 3/14/15, heating degree days (HDD) were higher than normal (cooler) on average for the week and higher than normal (cooler) for the year to date for most Texas cities shown.

Source: [www.cpc.ncep.noaa.gov](http://www.cpc.ncep.noaa.gov)

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 3/14/15	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	88	-44	3414	-7%
Austin	53	11	1915	25%
DFW	72	8	2292	5%
El Paso	43	-25	1945	-16%
Houston	49	9	1450	3%
SAT	38	0	1473	0%
Texas**	65	9	1953	8%
U.S.**	111	-33	3717	-30%

\* A minus (-) value is warmer than normal; a plus (+) value is cooler than normal. NOAA uses 65° Fahrenheit as the ‘normal’ basis from which HDDs are calculated. \*\* State and U.S. degree days are population-weighted by NOAA.

-999 = Normal Less Than 100 or Ratio Incalculable

#### Last week: U.S. natural gas storage at 1,512 Bcf

For the week ending 3/6/2015 working gas in storage decreased from 1,710 Bcf to 1,512 Bcf. This represents a decrease of 198 Bcf from the previous week. Stocks were 483 Bcf higher than last year at this time and 225 Bcf below the 5 year average of 1737 Bcf.

Source: <http://ir.eia.gov/ngs/ngs.html>

U.S. WORKING GAS IN STORAGE				
Region	Week ending 2/27/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	722	843	-121	-9.2%
West	355	371	-16	22.8%
Producing	633	724	-91	-1.9%
Lower 48 Total	1,710	1,938	-228	-1.5%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

### Last week: U.S. gas rig count down for the week

The gas rig count for the U.S. was down 11 for the week and down 87 when compared to twelve months ago. The total rig count for the U.S. was down 67 from last week and down 684 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

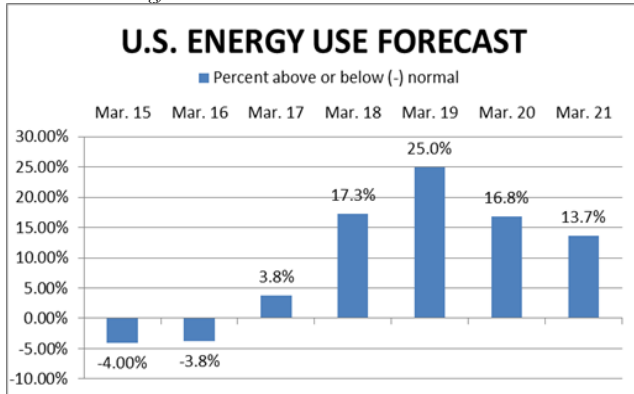
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 3/13/2015	+/- prior week	Year ago	+/- year ago
Texas	501	-37	868	-367
U.S. gas	257	-11	344	-87
U.S. oil	866	-56	1461	-595
U.S. total	1125	-67	1809	-684
Canada	220	-80	522	-302

### This week: U.S. energy varies this week

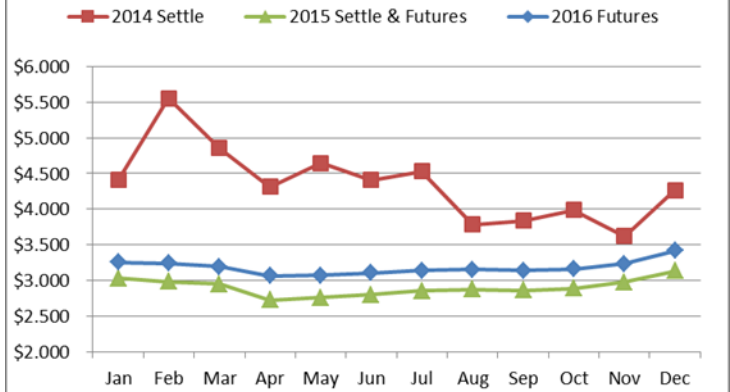
U.S. energy use is predicted to increase throughout this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index

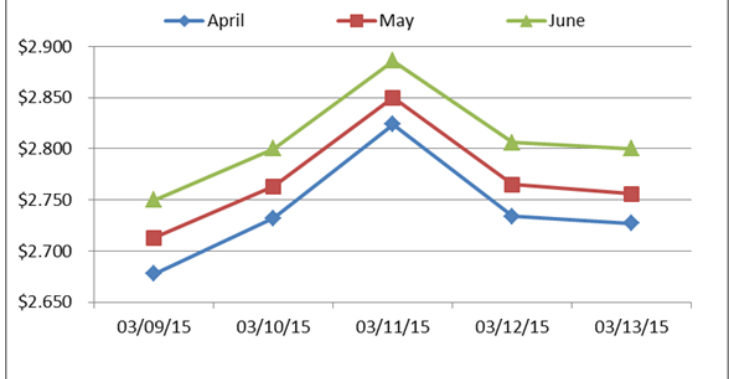


2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan.-Mar. and futures prices for the remainder of the year.

### NYMEX NATURAL GAS PRICES: 2014 - 2016



### LAST WEEK: NYMEX HENRY HUB FUTURES PRICES



### NATURAL GAS PRICE SUMMARY AS OF 3/13/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US April futures				
NYMEX	\$2.839	\$0.000	-\$2.016	\$2.903